# International Shoe Company

*Fifty-third*

# ANNUAL REPORT

*1964*

**ANNUAL MEETING OF STOCKHOLDERS**

will be held at 10 a.m. on February 23, 1965
at the Company's General Offices,
1509 Washington Avenue, St. Louis, Missouri

# 1964 Annual Report
INTERNATIONAL SHOE COMPANY

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# HIGHLIGHTS OF THE YEAR 1964

| *Fiscal Years Ended November 30,* | 1964 | 1963 |
|---|---|---|
| Net Sales | $ 345,448,310 | $ 295,615,393 |
| Income before Federal and Canadian Taxes | 14,396,578 | 12,301,936 |
| Federal and Canadian Taxes on Income | 5,517,629 | 6,527,786 |
| *Net Income | 8,440,790 | 5,493,113 |
| Dividends Paid | 4,118,186 | 4,004,309 |
| Net Income per share | 2.35 | 1.67 |
| Dividends per share | 1.20 | 1.20 |
| Net Working Capital | 125,504,850 | 117,808,804 |
| Net Working Capital per share | 35.01 | 35.90 |
| Stockholders' Equity | 119,652,198 | 111,170,026 |
| Stockholders' Equity per share | 33.38 | 33.88 |
| Shares of Common Stock Outstanding | 3,585,005 | 3,281,277 |
| Number of Stockholders | 17,600 | 18,600 |
| Number of Employees | 30,700 | 30,400 |

*After adjustments for minority interests

# From the President

### *To Our Stockholders:*

International Shoe Company's consolidated sales in 1964 reached a record high, and net income was the highest since 1960. Several factors contributed to the improved performance.

The Florsheim Division, at both manufacturing and retail levels, added to its impressive record of year to year increases in sales and profits.

Another important contribution came from the sharp improvement in the operations of the St. Louis Retail Division. As predicted early in the year, the breakeven point was reached in 1964, removing the adverse effect retail activity has had upon earnings in recent years.

New business was also a contributing factor. Consolidated sales and profits for the year were materially improved by the acquisition in April of P. N. Hirsch & Company which operates junior type department stores, and the expansion of this operation by the purchase of the assets of Greenberg Mercantile Company the following month. The excellent results of this first move in the company's diversification program confirm that we have acquired a sound business headed by a capable and aggressive management group.

It is, of course, the responsibility of your management to produce the best yield on the capital at its disposal. Intelligent use of this capital places the company in a position to take advantage of new profit opportunities as they are developed.

Our cash position has been strengthened over the past few years by the planned reduction of inventories of finished shoes and raw materials, and by the release of capital from the St. Louis Division's accounts receivable as a result of a change in the discount plan of several of its selling divisions.

A continuing program for progressively reviewing the return on investment in individual operating units has also improved our cash position. Some production facilities and a number of retail units were closed during 1964 as a result of this program. We will take similar action wherever study indicates long range profit improvement will result.

The conservative dividend policy of the past three years has been another important item in preparing the company for new profit opportunities.

All of these steps have resulted in the accumulation of capital which is being used to broaden and strengthen the operating base of your company.

On January 6 the International Shoe Company purchased for cash the assets of the Cowden Manufacturing Company, a leading manufacturer of men's and boys' work and play clothing, with headquarters in Lexington, Kentucky. This company, which was founded in 1919 and is headed by competent young management, operates six factories, all in Kentucky, and five warehouses in Kentucky, California, Pennsylvania and Missouri. The Cowden Manufacturing Company, with annual sales of approximately $30 million, promises to be an important factor in our consolidated sales and earnings for 1965 and in the years ahead.

The "Miss Wonderful" and "Personality" sales divisions were formed during the year to market women's shoes, and the "Poll-Parrot" and "Red Goose-Weather Bird" sales divisions were formed to market children's shoes under a new program developed by the St. Louis Division. It is expected that this new sales program will result in increased sales and improved service to our customers.

Savage Shoes Limited, our Canadian subsidiary, had a good year, as did our Puerto Rican subsidiaries.

Excellent progress was made during the year by DiVina Footwear, Inc., formed in 1963 to import women's shoes. The activities of DiVina were expanded mid-year through the establishment of the Ambassador Division to import men's shoes, and the Peperino Division to import women's lower priced footwear for volume distribution.

We invite your attention to the more detailed review of the year on the following pages, and to the reports on the activities of the principal divisions of the company.

The management of your company and the many employees and customers who knew him, were saddened by the death of Andrew W. Johnson on February 6, 1964. Mr. Johnson was elected to the Board of Directors in 1920, elected Vice-President in 1924, and elected Treasurer in 1930. After relinquishing the title of Treasurer in 1957, he continued to serve as a Director until his death.

I wish to take this occasion to express our appreciation to the company's many fine customers for the privilege of serving them, to the stockholders for their confidence and support, and to the employees whose combined efforts make our company's operation possible.

FOR THE BOARD OF DIRECTORS

M. R. Chambers

January 8, 1965 President

# 1964

THE YEAR IN REVIEW

## Consolidated Sales and Income

Net sales of $345,448,310 for the year set a new high for the company, exceeding the prior year sales of $295,615,393 by $49,832,917, an increase of 17%.

Net income of $8,440,790 compared with $5,493,113 in 1963, an increase of $2,947,677. Earnings per share were $2.35 on 3,585,005 shares of common stock outstanding, compared with $1.67 per share on 3,281,277 outstanding a year ago. This is an increase of 68¢ a share, or 41%.

The consolidated sales and earnings for 1964 include the results for the full year of P. N. Hirsch & Company, which was acquired April 10, 1964, and also the sales and earnings for seven months resulting from the purchase on May 1, of the assets of the Greenberg Mercantile Company. These acquisitions added $39,477,367 to the company's sales and $2,022,496 to its earnings.

Excluding these results, the company would have shown sales of $305,970,943 or $10,355,550 greater than a year ago, an increase of 3%. Earnings would have shown $6,418,294 or $925,181 higher than a year ago, an increase of 17%. Earnings per share excluding the shares issued for P. N. Hirsch & Company would have shown $1.98 compared with $1.67 a share a year ago.

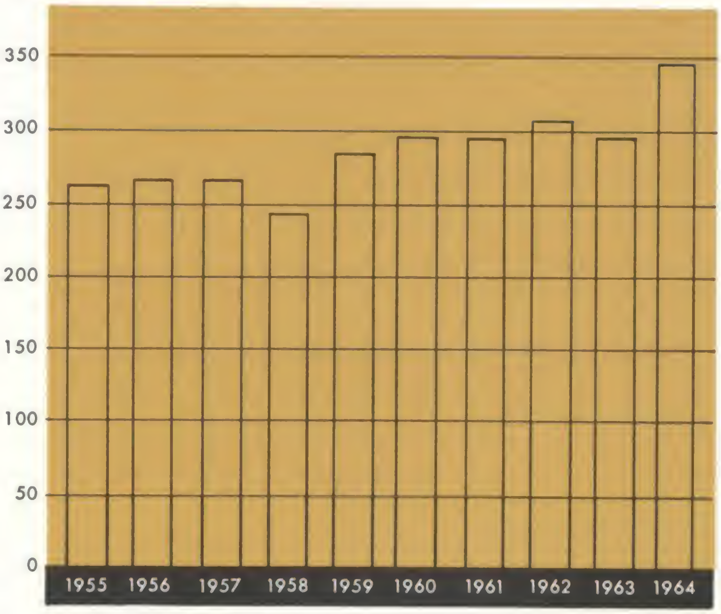
As a result of the Revenue Act of 1964, the reserve for investment tax credit for the years 1962 and 1963 amounting to $270,502 was eliminated and that amount was added to the earnings for 1964.

Sales at retail which in recent years have represented about 25% of the company's total consolidated sales now account for 34% of the total.

Material prices held fairly steady during the year. Shoe prices on the Spring 1965 lines were adjusted to provide for the higher wage rates granted under the principal wage contracts which became effective October 1.

**Sales**

*(In Millions of Dollars)*




## Financial Position

The company ended the year in a strong financial position. Working capital at year-end totaled $125,504,850, an all-time high for the company and an increase of $7,696,046 over a year ago. The ratio of current assets to current liabilities was 4.4 to 1.

Outlays for machinery and equipment, improvements, and additions amounted to $5,177,204. Of this amount, $4,475,788 was provided for by depreciation. Capital expenditures for 1965 are expected to be about $5.5 million.

Long-term debt at November 30 consisted of $50,000,000 of parent company debt and $2,625,435 applicable to the subsidiaries. Payments on the parent company debt will not begin until 1970 when the first payment of $1,875,000 is due. Payments on the subsidiary debt are due in varying amounts in the years 1966 through 1977.

The acquisition of P. N. Hirsch & Company was accomplished through the exchange of 337,679 shares of common stock of International Shoe Company for all of the

preferred stock and 99.6% of the common stock of P. N. Hirsch & Company. The exchanged stock represented a new issue of 240,000 shares supplemented by 97,679 shares of treasury stock.

## Dividends

International Shoe Company paid its 215th consecutive dividend on January 5, 1965, completing 52 years of uninterrupted payments.

For the year dividends were $1.20 per share, continuing the quarterly rate of 30¢ per share.

Payments for dividends in 1964 amounted to $4,118,186 leaving $4,322,604 or 51% of the year's net profits to provide for the continued growth and expansion of the business.

## Production

During 1964 the company's 49 shoe factories produced 43,357,270 pairs of shoes in a variety of types and styles. This compared with 42,365,215 pairs in 1963.

The production was comprised of 16,660,697 pairs of shoes for men and boys, 12,291,101 pairs for women and girls, 13,656,316 pairs for children, and 749,156 pairs of house slippers.

In addition to the production of shoes, we produced in our tanneries and supply plants for use in the manufacture of shoes, upper leather, sole leather, rubber soles and heels, cements, chemicals, boxes and other items having a market value of $35,704,141.

## Organizational Changes

At the stockholders' meeting on February 24, 1964, Richard H. Ely, Assistant Secretary and General Counsel, and Philip N. Hirsch, President of P. N. Hirsch & Company, were elected to the Board of Directors.

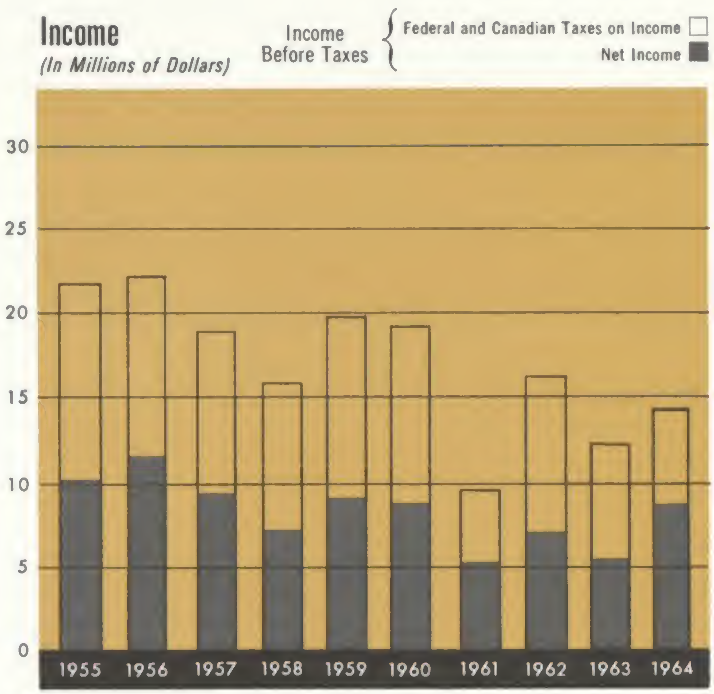
Norfleet H. Rand, Vice-President, was elected Treasurer, succeeding J. Lee Johnson, who retired as Vice-President and Treasurer, but who continues to serve as a Director.

## Our Employees

New wage contracts were signed covering the majority of our employees for the two-year period extending from October 1, 1964 through September 30, 1966. These agreements provide for increased wages, improved pension and group insurance benefits, and an additional paid holiday.

During 1964 our various group insurance plans paid over $1,800,000 in disability benefits covering employees and their dependents. In addition, retired employees received over $1,400,000 in pensions, and life insurance benefits exceeding $800,000 were paid to the beneficiaries of deceased employees.

The year just closed added to a long period of good relations with our fine work force of 30,700 men and women.



## Stockholders

At year-end the 3,585,005 shares of common stock outstanding were held by 17,600 stockholders located in all fifty states and in twelve foreign countries. Persons holding shares individually or in joint account with others numbered 16,400. Charitable institutions, hospitals, churches, colleges and universities totaling over 105, own 35,000 shares of the company's stock. In addition, there are one hundred fifty companies represented among the stockholders.

Approximately 56% of the stockholders own fifty shares or less, and only 18% hold one hundred shares or more. No one person or organization owns as much as 3% of the common stock outstanding.

## SOURCE AND DISTRIBUTION OF FUNDS 1964

Funds were acquired from sources as follows:

| | |
|---|---|
| Net income for year | $ 8,440,790 |
| Provision for depreciation | 4,475,788 |
| New issue of Company's common stock (250,200 shares at $15 per share stated value) | 3,753,000 |
| Net decrease in treasury stock | 1,314,346 |
| Decrease in customers' loans receivable | 1,065,027 |
| Increase in minority interests | 719,815 |
| Increase in long-term debt | 396,726 |
| | $20,165,492 |

These funds were distributed as follows:

| | |
|---|---|
| Expenditures for plant, equipment, and fixtures (net) | $ 5,177,204 |
| Dividends paid on common stock | 4,118,186 |
| Increase in excess of investment over equity in subsidiaries | 1,799,523 |
| Decrease in capital in excess of stated amount | 917,607 |
| Increase in sundry investments and deferred charges | 397,623 |
| Miscellaneous | 59,303 |
| | $12,469,446 |
| Net increase in working capital | 7,696,046 |
| | $20,165,492 |

## HOW WE USED OUR 1964 SALES DOLLAR

| | Amount | % |
|---|---|---|
| **Materials, Supplies and Expenses** | **$ 197,176,391** | **57.1** |
| **Employees' Pay and Benefits** | **127,655,844** | **37.0** |
| **Taxes (excluding Social Security)** | **7,699,497** | **2.2** |
| **Depreciation** | **4,475,788** | **1.3** |
| **Dividends to Stockholders** | **4,118,186** | **1.2** |
| **Remainder used in Business** | **4,322,604** | **1.2** |
| | **$ 345,448,310** | **100.0** |

# The Company at a Glance...

**International Shoe Company**
St. Louis, Missouri

**The Florsheim Shoe Company**
*(Division)*
Chicago, Illinois

**P. N. Hirsch & Company**
St. Louis, Missouri

**Julius Marlow Holdings Limited**
Melbourne, Australia

**Savage Shoes Limited**
Preston, Ontario, Canada

**Puerto Rican Investment Company**
Manati, Puerto Rico

**Societe des Chaussures Sirius S. A.**
Romans, France

**DiVina Footwear, Inc.**
St. Louis, Missouri

## OPERATING FACILITIES

| **In United States** | Shoe Factories | Tanneries | Finished Goods Warehouses | Supply & Service Plants | Retail Shoe Stores & Departments | Dept. Stores | Total Units |
|---|---|---|---|---|---|---|---|
| Alabama | | | | | 12 | 2 | 14 |
| Arizona | | | | | 2 | | 2 |
| Arkansas | 4 | | | | 15 | | 19 |
| California | | | | | 76 | | 76 |
| Colorado | | | | | 2 | | 2 |
| Connecticut | | | | | 9 | | 9 |
| District of Columbia | | | | | 5 | | 5 |
| Florida | | | | | 47 | 1 | 48 |
| Georgia | | | | | 26 | | 26 |
| Hawaii | | | | | 2 | | 2 |
| Idaho | | | | | | 1 | 1 |
| Illinois | 7 | | 2 | 2 | 36 | 63 | 110 |
| Indiana | | | | | 7 | 18 | 25 |
| Iowa | | | | | 7 | 2 | 9 |
| Kansas | | | | | 9 | 6 | 15 |
| Kentucky | 2 | | | | 3 | 5 | 10 |
| Louisiana | | | | | 5 | | 5 |
| Maine | | | 1 | | | | 1 |
| Maryland | | | | | 8 | | 8 |
| Massachusetts | | | | | 28 | | 28 |
| Michigan | | | | | 10 | | 10 |
| Minnesota | | | | | 18 | | 18 |
| Mississippi | | | | | 10 | | 10 |
| Missouri | 20 | 1 | 8 | 10 | 22 | 46 | 107 |
| Montana | | | | | 1 | | 1 |
| Nebraska | | | | | 3 | | 3 |
| New Hampshire | | | | | 2 | | 2 |
| New Jersey | | | | | 20 | | 20 |
| New Mexico | | | | | 1 | | 1 |
| New York | | | | | 39 | | 39 |
| North Carolina | | | | | 17 | | 17 |
| North Dakota | | | | | 3 | | 3 |
| Ohio | | | | | 21 | | 21 |
| Oklahoma | | | | | 7 | 2 | 9 |
| Oregon | | | | | 3 | 9 | 12 |
| Pennsylvania | | | 1 | | 27 | | 28 |
| Rhode Island | | | | | 3 | | 3 |
| South Carolina | | | | | 10 | | 10 |
| Tennessee | | 1 | | | 10 | 4 | 15 |
| Texas | | | | 1 | 84 | 5 | 90 |
| Utah | | | | | 6 | | 6 |
| Virginia | | | | | 12 | | 12 |
| Washington | | | | | 7 | 6 | 13 |
| West Virginia | | 1 | | | 6 | | 7 |
| Wisconsin | | | | | 10 | | 10 |
| **In Canada** | 8 | | 1 | 2 | | | 11 |
| **In Puerto Rico** | 5 | | 2 | 1 | | | 8 |
| **In Australia** | 2 | | | | | | 2 |
| **In France** | 1 | | | | | | 1 |
| | **49** | **3** | **15** | **16** | **651** | **170** | **904** |






Shown here are five nationally advertised brands now sold by specialized divisions which replace general lines under new marketing program.

# St. Louis Division

A significant development in the St. Louis Division in 1964 was the establishment of the "Miss Wonderful" and "Personality" Divisions to sell individually styled and advertised lines of women's shoes under a new marketing program, with individual sales and service organizations. The "Poll-Parrot" and "Red Goose-Weather Bird" Divisions were established on a similar basis to market children's shoes.

The new marketing program eliminates the long established Roberts, Johnson & Rand, Peters and Friedman-Shelby Divisions which sold men's, women's and children's shoes on a general line basis.

Distribution of the St. Louis Division is now channeled entirely through specialized sales organizations, each equipped to serve a specific segment of the market. The closer customer relationships and the sharper focus of specialty lines upon each customer's requirements are expected to bring sales and profits to more satisfactory levels.

The St. Louis Retail Division, which operates directly owned stores and leased departments, has presented many problems in the past, but now is on a fundamentally sound basis. A breakeven on sharply increased sales was achieved in 1964 and the outlook for the profitable expansion of this division is good.

Much of the progress in the retail activities can be attributed to the program for improving the character of the individual units. During the year just closed, forty-five new, larger stores and leased departments located in leading department stores were opened. One hundred nineteen unprofitable, low volume units were closed, and satisfactory arrangements made concerning the leases of these units. New leases have been signed for fifteen additional units to be opened early in 1965.

Shoe factory production was maintained at a higher level in relation to capacity in 1964 than in 1963 which contributed importantly to St. Louis Division profits. As part of the continuing process of keeping plant facilities aligned with requirements, construction was started on additions to the shoe factories in Jackson, Missouri, and Salem, Missouri. Three marginal shoe factories and an upper leather tannery were closed during the year.

In Puerto Rico, the new handsewn factory at Barceloneta was brought into production. This is the fifth island factory which, with supporting facilities, produces highly competitive shoes for distribution principally by the St. Louis Division.

The quality and style appeal of our shoes were greatly enhanced during the year through the upgrading of materials, particularly upper leather, and through the application of new techniques which are being introduced in our manufacturing processes.

### SALES DIVISIONS

ACCENT AMBASSADOR CONTINENTAL
DI VINA FIANCEES GREAT NORTHERN
HAMPSHIRE HY-TEST JANTZEN
MISS WONDERFUL PEPERINO PERSONALITY
POLL-PARROT RAND - CITY CLUB - JOHN C. ROBERTS
RED GOOSE - WEATHER BIRD SENTINEL
VITALITY WINTHROP YOUNGDALE

# The Florsheim Shoe Company

**BOARD OF MANAGERS**

William J. Banks
Aloysius M. Brumbaugh
Maurice R. Chambers
William Collingwood
Simeon F. Eagan
Harold M. Florsheim
Gifford P. Foley
Richard A. Heider
J. Lee Johnson
Weldon P. Magee
Martin F. Maher
Oswald M. Pick
Norfleet H. Rand
Harry E. Revkin
John K. Riedy
Laurence M. Savage
Paul M. Smith
Joseph B. Stancliffe
John W. Wallace

**OFFICERS**

Harold M. Florsheim, *President*
S. F. Eagan, *Vice-President*
O. M. Pick, *Vice-President*
J. B. Stancliffe, *Vice-President*
W. H. Armstrong, *Vice-President*
W. Collingwood, *Vice-President*
G. P. Foley, *Vice-President*
W. P. Magee, *Vice-President*
J. K. Riedy, *Vice-President*
J. W. Wallace, *Treasurer and Secretary*
B. B. Clayburn, *Assistant Secretary*
M. F. Maher, *Director of Advertising*


Nineteen sixty-four was an excellent year for the Florsheim Division. Continued growth in the men's and women's wholesale divisions as well as the retail stores and foreign operations again emphasizes the leadership Florsheim holds in the quality shoe field.

During the year many improvements and technical changes were made in manufacturing procedures by the acquisition of new and modern equipment. These changes have helped maintain the high standard of quality upon which this business has been built.

The furniture and display plant operated by the company provides dealers and company owned stores with attractive window fixtures and interior displays. These displays have been an important factor in increasing sales of Florsheim shoes.

In a few Florsheim stores Gay Nineties Barber Shops have been added. The increase in male traffic was immediately reflected in sales of shoes and accessories. These operations have been successful and an expansion of this unique feature into other stores is planned for 1965.

Julius Marlow Holdings Limited of Melbourne, Australia has continued its position as the largest manufacturer of men's shoes in the Commonwealth. Plans have been completed for the production of Florsheim Shoes for men by Julius Marlow, and they will be introduced in Australia in 1965.

Arrangements were completed during the year for the acquisition of a controlling interest in Sirius Shoe Company, one of France's larger manufacturers of men's quality footwear. Sirius which also produces medium priced shoes under the name of Athos will receive technical and other assistance from Florsheim. No change will be made in the administration or character of the young, aggressive organization. This association provides the company with an opportunity to enter the Common Market, and gives Sirius an entree into the United States' market.

The Florsheim Shoe Company looks to another good year in 1965 aware of the need for increased sales to offset higher material and labor costs.

*The new Florsheim Shoe Store in St. Louis, Missouri, features a Gay Nineties Barber Shop.*

# Savage Shoes Limited

| DIRECTORS | OFFICERS |
|---|---|
| William J. Banks<br>Maurice R. Chambers<br>Harold M. Florsheim<br>C. Reginald Kidner<br>Donald G. MacLeod<br>John S. Malcolm<br>Andrew G. McNiece<br>Norfleet H. Rand<br>Laurence M. Savage<br>Mervyn E. Souder | Laurence M. Savage, *Chairman of the Board*<br>John S. Malcolm, *President*<br>C. Reginald Kidner, *Executive Vice-President*<br>Mervyn E. Souder, *Vice-President*<br>Byron J. Thouless, *Secretary-Treasurer*<br>Donald G. MacLeod, *Comptroller* |

Savage Shoes Limited, Canada's largest shoe manufacturer, maintained its sales volume and improved its earnings in 1964, in the face of increased competition from imported and domestic footwear.

Favorable results continued from the reorganization of the sales divisions begun in 1963. The Juvenile Division of the company is increasing its share of the growing children's shoe market. The Men's Division is experiencing similar growth, particularly in the wide acceptance of the Florsheim, McHale and Winthrop brands. In the Women's Division, marginal lines have been eliminated to improve the profitability of this division.

Denny Stewart Limited of Montreal, a subsidiary company manufacturing high fashion shoes for women, again turned in an excellent performance in both sales and earnings.

Savage Shoes Limited has continued to introduce technological advances in shoe manufacturing processes into its plants. These improvements led to the closing of the St. Thomas shoe factory in 1964. Significant reductions in costs have been effected by transferring this production to larger, more efficient locations. Costs were also reduced by further centralization of administrative functions, and increased utilization of electronic data processing equipment.

Several changes were made in corporate officers in mid-1964. Laurence M. Savage who has been President of Savage Shoes Limited for more than 35 years became Chairman of the Board and Chief Executive Officer. John S. Malcolm, formerly Vice-President-Marketing, became President, and C. Reginald Kidner, Executive Vice-President. Three other members of Savage's management, Donald G. MacLeod, Andrew G. McNiece, and Mervyn E. Souder, were elected to the Board of Directors. These and other rearrangements of responsibility of top management personnel have strengthened the operating control of the company.

The year ahead is viewed with optimism. It is expected that sales and more importantly, earnings, will show improvement.

*Lionel Dennenberg, Secretary-Treasurer, and Stewart Mossey, President, Denny Stewart Limited, Montreal, a Savage Shoe subsidiary, examine a women's high fashion shoe in their attractive new showroom.*

# P. N. Hirsch & Company

P. N. HIRSCH & CO. Department Stores

**DIRECTORS**

William J. Banks
Maurice R. Chambers
Richard H. Ely
Joseph Fox
Irwin Gittelman
Oliver A. Goralnik
Philip N. Hirsch
Ralph Hirsch
Norfleet H. Rand

**OFFICERS**

Philip N. Hirsch, *President*
Irwin Gittelman, *Vice-President*
Joseph Fox, *Vice-President*
Oliver A. Goralnik, *Treasurer*
Ralph Hirsch, *Secretary*
Harold Hirsch, *Assistant Vice-President*
Harry Shear, *Assistant Vice-President*
William J. Banks, *Assistant Treasurer*
Dixon Timmerman, *Assistant Treasurer*
Gerald B. Hirsch, *Assistant Secretary*
Richard H. Ely, *Assistant Secretary*
Arthur S. Lowell, *Assistant Secretary*

The P. N. Hirsch & Company, a chain of 105 junior department stores, was acquired on April 10, 1964, through an exchange of capital stock. This was International Shoe Company's first step in its program of diversification.

The P. N. Hirsch & Company has an outstanding record of growth and development, dating from the opening of its first store in 1930, and has shown a profit each year since its beginning. Only twice in its thirty-four year history has the year's profit failed to exceed the profit of the prior year.

Popular priced family wearing apparel, yard goods, textiles for home use and related items are the principal lines of merchandise sold through its stores which are located in small communities and in small shopping centers in the metropolitan areas.

The success of the P. N. Hirsch & Company is attributable largely to its ability to operate on low expense ratios which produce a good rate of return on markups that are considerably lower than those required by most department stores. The stores, which have an average annual volume of $250,000, are designed to permit a large degree of self selection and to otherwise operate with low expenses. The central office and modern warehouse located in St. Louis, Missouri, are equipped to perform their functions simply and economically.

Soon after acquisition, the activities of the P. N. Hirsch & Company were expanded by the purchase for cash on May 1, 1964, of the assets of the Greenberg Mercantile Company, operators of a similar chain of 58 stores. The addition of these stores, and openings at new locations brought the number of units operating under the name and management of the P. N. Hirsch & Company to 170 at year end.

The potential for profitable growth of the P. N. Hirsch & Company is good. A number of new stores are scheduled for opening in 1965, and it is the company's objective to continue to expand this sound, well established operation in the years ahead.

*P. N. Hirsch and Company general headquarters and warehouse building in St. Louis which is equipped for simple, economical operation.*

**International Shoe Company**

# *Consolidated Financial Statements 1964*

# International Shoe Company

CONSOLIDATED BALANCE SHEET

## Assets

| November 30, | 1964 | 1963 |
|---|---|---|
| Current assets: | | |
| Cash | $ 19,230,542 | $ 13,865,932 |
| Marketable securities, at cost—approximates market | 5,847,125 | 8,100,000 |
| Receivables—trade and sundry, less allowance for cash discounts and doubtful accounts | 49,764,404 | 54,113,395 |
| Inventories (note 3): | | |
| Finished shoes | 45,878,045 | 43,305,098 |
| Junior department store merchandise | 15,981,627 | — |
| Raw material and work in process | 24,427,689 | 28,697,567 |
| | 86,287,361 | 72,002,665 |
| Prepaid insurance premiums, taxes, and sundry | 915,834 | 737,476 |
| Total current assets | 162,045,266 | 148,819,468 |
| Customers' secured loans, deferred maturities | 4,077,006 | 5,142,033 |
| Excess of investment over equity in subsidiaries | 4,740,942 | 2,941,419 |
| Employees' notes receivable for stock, secured by 28,067 shares (25,313 shares in 1963) of parent company's common stock | 527,178 | 467,746 |
| Sundry investments and deferred charges | 1,189,475 | 791,852 |
| Physical properties—at cost, less accumulated depreciation: | | |
| Land | 4,005,706 | 3,871,243 |
| Buildings and structures | 44,900,054 | 43,054,636 |
| Machinery and equipment | 48,069,947 | 46,893,412 |
| Lasts, patterns, and dies | 1 | 1 |
| | 96,975,708 | 93,819,292 |
| Less accumulated depreciation | 55,956,529 | 53,501,529 |
| | 41,019,179 | 40,317,763 |
| | $213,599,046 | $198,480,281 |

See accompanying notes to financial statements.

## Liabilities and Stockholders' Equity

| November 30, | 1964 | 1963 |
|---|---|---|
| Current liabilities: | | |
| Notes payable to banks | $ 2,462,350 | $ 1,517,000 |
| Current maturities of long-term debt | 1,794,966 | 1,571,210 |
| Accounts payable and accrued expenses | 27,488,470 | 23,363,391 |
| Federal and Canadian income taxes | 4,794,630 | 4,559,063 |
| Total current liabilities | 36,540,416 | 31,010,664 |
| Deferred Federal income taxes | 1,476,800 | 1,486,500 |
| Long-term debt, less current maturities: | | |
| 4⅝% promissory installment notes due annually $1,875,000, 1970 through 1989, and balance in 1990 | 50,000,000 | 50,000,000 |
| 3⅛% promissory installment note | — | 1,500,000 |
| Subsidiaries' debts payable in varying amounts through 1977 | 2,625,435 | 728,709 |
| | 52,625,435 | 52,228,709 |
| Minority interests in subsidiaries | 3,304,197 | 2,584,382 |
| Stockholders' equity: | | |
| Common stock without nominal or par value: | | |
| Authorized 4,000,000 shares; issued 3,650,200 shares (3,400,000 shares in 1963) (note 4) | 54,753,000 | 51,000,000 |
| Capital in excess of stated amount | 73,709 | 991,316 |
| Retained earnings (note 5) | 66,731,760 | 62,399,327 |
| | 121,558,469 | 114,390,643 |
| Less common stock in treasury, 65,195 shares (118,723 shares in 1963), at cost | 1,906,271 | 3,220,617 |
| Stockholders' equity applicable to common stock outstanding, 3,585,005 shares (3,281,277 shares in 1963) | 119,652,198 | 111,170,026 |
| | $213,599,046 | $198,480,281 |

# International Shoe Company

## CONSOLIDATED INCOME AND RETAINED EARNINGS

| Years Ended November 30, | 1964 | 1963 |
|---|---|---|
| Sales and other income: | | |
| Net sales | $345,448,310 | $295,615,393 |
| Income from rentals and services | 277,330 | 297,471 |
| Interest and other income | 1,020,289 | 1,037,685 |
| | 346,745,929 | 296,950,549 |
| Deductions: | | |
| Cost of sales, selling, general and administrative expenses | 324,965,454 | 277,804,495 |
| Depreciation | 4,475,788 | 4,053,318 |
| Interest and amortization of expense on long-term debt | 2,527,790 | 2,479,338 |
| Other interest and sundry charges | 380,319 | 311,462 |
| | 332,349,351 | 284,648,613 |
| Income before Federal and Canadian income taxes | 14,396,578 | 12,301,936 |
| Federal and Canadian income taxes, estimated | 5,517,629 | 6,527,786 |
| | 8,878,949 | 5,774,150 |
| Proportion of net income of subsidiaries applicable to minority interests | 438,159 | 281,037 |
| NET INCOME FOR YEAR APPLICABLE TO CAPITAL STOCK OF COMPANY (note 6) | $ 8,440,790 | $ 5,493,113 |
| Retained earnings at beginning of year: | | |
| International Shoe Company | $ 62,399,327 | $ 60,910,523 |
| P. N. Hirsch & Co., net of minority interests | 4,520,552 | — |
| | 66,919,879 | 60,910,523 |
| Net income for year applicable to capital stock of company | 8,440,790 | 5,493,113 |
| | 75,360,669 | 66,403,636 |
| Deduct: | | |
| Dividends on common stock, $1.20 per share, both years | 4,118,186 | 4,004,309 |
| Charge arising from pooling of interests, less amount charged to capital in excess of stated amount | 4,510,723 | — |
| | 8,628,909 | 4,004,309 |
| RETAINED EARNINGS AT END OF YEAR | $ 66,731,760 | $ 62,399,327 |

## CONSOLIDATED CAPITAL IN EXCESS OF STATED AMOUNT

| Years Ended November 30, | 1964 | 1963 |
|---|---|---|
| Balance at beginning of year: | | |
| International Shoe Company | $ 991,316 | $ 1,010,236 |
| P. N. Hirsch & Co., net of minority interests | 516,779 | — |
| | 1,508,095 | 1,010,236 |
| Adjustments resulting from treasury stock transactions and issuance of stock under option plans | 60,272 | (18,920) |
| | 1,568,367 | 991,316 |
| Deduct excess of stated value of common stock and cost of treasury stock issued over par value of P. N. Hirsch & Co. stock, acquired under pooling of interests concept | 6,005,381 | — |
| Less balance charged to retained earnings | 4,510,723 | — |
| | 1,494,658 | — |
| CAPITAL IN EXCESS OF STATED AMOUNT AT END OF YEAR | $ 73,709 | $ 991,316 |

See accompanying notes to financial statements.

# International Shoe Company

## NOTES TO FINANCIAL STATEMENTS

**(1) Principles of Consolidation:**

All subsidiaries with a 51% or greater ownership are included in the consolidated financial statements. The accounts of foreign subsidiaries have been converted to United States dollars, generally at year-end rates for working capital, at rates on date acquired for fixed assets and related depreciation, and at average monthly rates for income and expense accounts. Unremitted foreign earnings included in net income have been retained for permanent reinvestment by the respective subsidiaries, and accordingly no provision for income taxes is considered necessary with respect thereto.

**(2) Pooling of Interests:**

During the year the Company exchanged 337,679 shares of common stock for all of the preferred and 99.6% of the common stock of P. N. Hirsch & Co. This exchange has been accounted for as a pooling of interests, and accordingly, the consolidated financial statements include the accounts of Hirsch for the entire year ended November 30, 1964. The 1963 accounts have not been restated to include the P. N. Hirsch operations on a comparable basis. Restated, such accounts result in net sales of $323,356,645 and net income of $6,373,719.

**(3) Inventories:**

Thirty-five percent of the inventories at current values are priced at cost, last-in, first-out (LIFO). The remainder of the inventories are priced at the lower of cost, first-in, first-out, or replacement market.

**(4) Common stock subject to options:**

At the beginning of the year, options to acquire 136,700 shares at an average price of $24.20 were outstanding. During the year, options were granted for 31,000 shares at an average price of $28.13 (exercisable 1966 to 1974). Options for 18,950 shares at an average price of $23.51 were exercised and options for 5,650 shares at an average price of $27.51 expired or were cancelled during the year. At November 30, 1964 options to acquire 143,100 shares at an average price of $25.01 were outstanding.

Of the options outstanding at November 30, 1964, 70,250 shares at $23.50 were reserved under the Restricted Stock Option Plan adopted April 21, 1959, modified and extended November 5, 1962. There were no shares available at the beginning or close of the year for the granting of options under this plan. The remaining restricted stock options outstanding at the close of the year, 72,850 shares at an average price of $26.47, were granted by the Company to executive and administrative employees at prices representing at least market value at the date of grant.

**(5) Retained earnings restrictions:**

Retained earnings of $43,810,400 at November 30, 1964 are restricted as to payment of cash dividends on common stock by the 4⅝% promissory note agreement. The note agreement also provides that no payment be made for dividends unless consolidated net working capital shall be at least $80,000,000.

**(6) Investment tax credit:**

As a result of changes in the Revenue Act of 1964, the Company changed its method of accounting for the investment tax credit in 1964 from the deferral method to the 100% flow-through method. In connection with this change in method of accounting, the unamortized investment credit of 1962 and 1963 amounting to approximately $270,500 was taken into net income during 1964.

**(7) Long-term leases:**

The minimum rentals on properties leased for terms of more than five years approximate $4,500,000 annually.

## Accountants' Report

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INTERNATIONAL SHOE COMPANY:

We have examined the consolidated balance sheet of International Shoe Company and subsidiaries as of November 30, 1964 and the related statements of income and retained earnings and capital in excess of stated amount for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and retained earnings and capital in excess of stated amount present fairly the financial position of International Shoe Company and subsidiaries at November 30, 1964 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year except as indicated in note 2 to the financial statements.

PEAT, MARWICK, MITCHELL & CO.

St. Louis, Missouri
January 7, 1965

# International Shoe Company

## 10 YEAR CONSOLIDATED

YEARS ENDED

| | 1964 | 1963 |
|---|---|---|
| **FOR THE YEAR** | | |
| Net Sales | $345,448 | $295,615 |
| Income Before Taxes | 14,397 | 12,302 |
| Federal and Canadian Income Taxes | 5,518 | 6,528 |
| Net Income (1) | 8,441 | 5,493 |
| Dividends Paid | 4,118 | 4,004 |
| Percentage of Net Income to Sales | 2.4% | 1.9% |
| **AT YEAR END** | | |
| Cash and Securities | $ 25,078 | $ 21,966 |
| Receivables | 49,764 | 54,113 |
| Inventories | 86,287 | 72,003 |
| Prepaid Expenses | 916 | 737 |
| Total Current Assets | 162,045 | 148,819 |
| Current Liabilities | 36,540 | 31,010 |
| Working Capital | 125,505 | 117,809 |
| Physical Properties (Net) | 41,019 | 40,318 |
| Other Assets | 10,535 | 9,343 |
| Deferred Federal Taxes | 1,477 | 1,487 |
| Long-term Debt | 52,626 | 52,229 |
| Minority Interests in Subsidiaries | 3,304 | 2,584 |
| Stockholders' Equity | $119,652 | $111,170 |
| Shares of Common Stock Outstanding | 3,585,005 | 3,281,277 |
| **PER SHARE OF COMMON STOCK** (2) | | |
| Net Income | $ 2.35 | $ 1.67 |
| Dividends | 1.20 | 1.20 |
| Stockholders' Equity | 33.38 | 33.88 |

(1) After adjustment for minority interests.

(2) Based on shares outstanding.

(3) Includes nonrecurring items which increased net income $1,101,325 or 33 cents per share.

# FINANCIAL REVIEW

NOVEMBER 30

| 1962 | 1961 | 1960 | 1959 | 1958 | 1957 | 1956 | 1955 |
|---|---|---|---|---|---|---|---|
| | | | (DOLLARS IN THOUSANDS) | | | | |
| $303,182 | $294,275 | $296,470 | $283,261 | $244,314 | $266,073 | $266,814 | $262,414 |
| 16,008 | 9,369 | 18,855 | 19,400 | 15,554 | 18,675 | 22,123 | 21,847 |
| 8,616 | 4,081 | 10,101 | 10,132 | 7,938 | 9,095 | 11,246 | 11,448 |
| 7,071 | 5,191 | 8,867 | 9,207 | 7,541 | 9,577 | 11,849 (3) | 10,414 |
| 4,050 | 6,116 | 6,113 | 6,050 | 7,043 | 8,054 | 8,062 | 8,095 |
| 2.3% | 1.8% | 3.0% | 3.3% | 3.1% | 3.6% | 4.4% | 4.0% |
| | | | (DOLLARS IN THOUSANDS) | | | | |
| $ 16,453 | $ 16,683 | $ 11,634 | $ 9,952 | $ 12,317 | $ 8,495 | $ 8,892 | $ 10,639 |
| 54,807 | 55,048 | 53,598 | 52,418 | 43,468 | 45,304 | 46,778 | 40,621 |
| 77,000 | 74,355 | 83,385 | 80,198 | 65,473 | 71,613 | 74,409 | 71,848 |
| 747 | 707 | 781 | 680 | 404 | 593 | 564 | 430 |
| 149,007 | 146,793 | 149,398 | 143,248 | 121,662 | 126,005 | 130,643 | 123,538 |
| 31,545 | 28,740 | 29,529 | 42,921 | 24,872 | 28,965 | 31,253 | 27,223 |
| 117,462 | 118,053 | 119,869 | 100,327 | 96,790 | 97,040 | 99,390 | 96,315 |
| 40,976 | 40,247 | 40,538 | 38,588 | 37,882 | 38,520 | 37,054 | 36,800 |
| 9,527 | 9,772 | 10,339 | 10,805 | 10,836 | 11,257 | 10,657 | 10,394 |
| 604 | — | — | — | — | — | — | — |
| 54,571 | 56,820 | 58,585 | 40,351 | 41,316 | 42,999 | 44,415 | 44,655 |
| 1,481 | 1,438 | 1,395 | 1,453 | 912 | 1,035 | 1,228 | 1,152 |
| $111,309 | $109,814 | $110,766 | $107,916 | $103,280 | $102,783 | $101,458 | $ 97,702 |
| 3,341,470 | 3,397,222 | 3,398,022 | 3,395,222 | 3,353,718 | 3,353,718 | 3,358,703 | 3,359,503 |
| | | | (IN DOLLARS) | | | | |
| $ 2.12 | $ 1.53 | $ 2.61 | $ 2.71 | $ 2.25 | $ 2.86 | $ 3.53 (3) | $ 3.10 |
| 1.20 | 1.80 | 1.80 | 1.80 | 2.10 | 2.40 | 2.40 | 2.40 |
| 33.31 | 32.32 | 32.60 | 31.78 | 30.80 | 30.65 | 30.21 | 29.08 |

## SHOES FOR MEN

RAND RANDCRAFT CITY CLUB
WESBORO JOHN C. ROBERTS
KINGSWAY WINTHROP HANAN
AMBASSADOR BRIARCLIFF
FLORSHEIM

## SHOES FOR WOMEN

MISS WONDERFUL PERSONALITY
DEBONAIR SENSATIONS ACCENT
VITALITY DI VINA FIANCEES JANTZEN
FLORSHEIM FUN SHUS

## SHOES FOR CHILDREN

RED GOOSE POLL-PARROT
WEATHER BIRD YANIGANS SCAMPEROOS
HAPPY HIKERS FUN SHUS

## SERVICE SHOES

OUTDOORSMAN STAR BRAND
DIAMOND BRAND HY-TEST

## IN CANADA

SAVAGE ACCENT QUEEN QUALITY
FLORSHEIM RAND
JOHN McHALE WINTHROP

## IN AUSTRALIA

JULIUS MARLOW MARSHALL

## IN FRANCE

SIRIUS ATHOS



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*Chairman of the Board and Chief Executive Officer—Mercantile Trust Company*

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| LAURENCE M. SAVAGE | *Vice-President* |
| JOSEPH FOX | *Vice-President* |
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| JOHN D. WINFREY | *Vice-President* |
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| LEONARD F. VOGT | *Assistant Comptroller* |
| RICHARD H. ELY | *Assistant Secretary* |

## General Counsel

RICHARD H. ELY

## General Offices

1509 Washington Avenue, St. Louis, Missouri 63166

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New York, New York

Mercantile Trust Company
St. Louis, Missouri

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New York, New York

St. Louis Union Trust Company
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*International Shoe Company*